

'curtailing the discounts of a group of speculators who were dealing in accommodation paper drove all this class of business to the new bank. The result was the over-issue of notes, which came back so rapidly upon the bank for redemption in coin that it was necessary to draw constantly upon London and to incur heavy expenses for commissions and interest. As Adam Smith describes the operations of the bank:

When it was obliged to stop, it had in the circulation about £200,000 in bank-notes. In order to support the circulation of those notes, which were continually returning upon it as fast as they were issued it had been constantly in the practice of drawing bills of exchange upon London, of which the number and value were continually increasing, and, when it stopped, amounted to upwards of £600,000. This bank, therefore, had in little more than the course of two years advanced to different people upwards of £800,000 at five per cent. Upon the £200,000, which it circulated in bank-notes, this five per cent, might perhaps be considered as clear gain, without any other deduction besides the expense of management. But upon upwards of £600,000 for which it was continually drawing bills of exchange upon London, it was paying, in the way of interest and commission, upwards of eight per cent., and was, consequently, losing more than three per cent, upon more than three-fourths of all its dealings.

The Ayr Bank was founded by a company which comprised the Duke of Hamilton and many other wealthy landed proprietors and it was supposed that their estates, which were pledged by the unlimited liability of the stockholders, would suffice to maintain the notes of the bank at par and supply it with coin. The failure of the experiment proved two of the essential principles of a banking currency—that no greater volume of notes can be maintained in circulation than the convenience of business requires, and that landed security is not the equivalent of coin in maintaining the redemption of notes on demand or the credit of a bank. The period of the operation of the Ayr Bank was one of extensive speculation and large Scotch exports, but the apparent prosperity was brought to a sudden halt by the crisis of 1772, which began in London on June 10th, and caused a run upon